Ending child poverty: moving forward

Twenty-year plans are an unfamiliar feature of the UK political landscape. Tony Blair's remarkable pledge in 1999 to end child poverty by 2020 provided a vision and a compass, but not a long-term plan. Only now is the Government trying to create a full, publicly articulated, strategy for meeting its bold targets.

Analysis of the latest research by Donald Hirsch for the Joseph Rowntree Foundation argues that, if it is to be successful, any long-term plan must include initiatives both to expand work opportunities and to redistribute income.

THE WAR ON CHILD POVERTY has so far had a mixed record. A combination of welfare to work measures and generous tax credits has helped to reverse a historic trend which saw low-income families with children falling ever further behind, as they failed to share in growing prosperity, from the mid 1970s to the mid 1990s. In recent years, on the contrary, those on the lowest incomes have seen them grow faster than the average, and the number of children in families below 60 per cent of median income, after housing costs, had reduced by about one-sixth up to the time of the latest survey, covering 2004/05.

This progress fell short of the target reduction of one quarter, but was welcome nonetheless. Much more important than missing the target is the issue of whether progress in the right direction can be sustained. Evidence assembled by the Joseph Rowntree Foundation (JRF)[1] shows that on present policies, this progress could stall. In putting together a public strategy to be published in the autumn, the Department for Work and Pensions has recognised the need to extend its efforts, and to bring them more systematically into a plan capable of reducing child poverty to half its 1999 level by 2010, and to close to zero by 2020.

This renewal of the effort to end child poverty is a chance to address some crucial questions that so far have gone unanswered by government. To what extent can the strategy rely on 'work as the best route out of poverty', and to what extent must it accept that at any one time many children will not have working parents? For those who do enter work, by what means will working poverty, which still accounts for half the child poverty total, be abolished? Can this be done simply by raising tax credits while earnings stagnate, and if not, what tools does the Government have to work for an improvement in parental earnings? And for those out of work, how can we lift families with children out of relative poverty, while adult income support levels continue to decline relative to general incomes, being pegged only to prices?

To understand the extent of these challenges, JRF looked at the potential contribution that different elements of a strategy could make over the next 14 years. The following analysis shows that we cannot expect to achieve the target either purely through redistribution or purely by expanding work opportunities. Only if strong efforts are made on both these fronts can the mission succeed.

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Tax credits, benefits and welfare to work: extending the measures that have worked so far

The government policies that can most directly influence child poverty are those that help parents in non-working families to move into work and those that give more financial help to low-income families, whether in or out of work. These have been the cornerstones of anti-poverty policies to date.

In the welfare to work strategy, the big achievement has been to increase the employment rate of lone parents, from 46 per cent to 54 per cent of parents in just six years, a very rapid change. Much more can still be done to improve child-care options, since many parents still do not feel that they have satisfactory options, whether in terms of cost, convenience, type or quality, that allow them to take the kinds of jobs that are available. The Government is extending its welfare to work programmes, both for lone parents and for people with disabilities (many of whom are parents), and aims to raise the lone parent work rate to 70 per cent by 2010 – which would mean accelerating the present rate of progress in this direction.

Much emphasis has been on the kind of measure that would help move towards this employment target. The going will be tough, given that those who remain out of work tend to have greater disadvantages than those who have already moved into jobs. Yet even if it is met, it will only go a small way towards meeting the objective of halving child poverty by 2010, let alone ending it by 2020. This is for several reasons. Progress has tended to be among lone parents, but most children in poverty live with couples. For lone parents and people in couples who do enter work, many still remain in poverty because they move into poorly paid, often part-time jobs, where earnings are too low to get a family above the poverty line even with the help of tax credits.

And most importantly, even if 70 per cent get into work, this still means that nearly one-third of lone parents, along with a substantial number of couples, will be left depending on benefits. And most of those who remain will be those with very young children, with disabilities, or both. In these circumstances, efforts to increase work rates further, even if desirable (which is questionable), will bring diminishing returns. So of the three million or so children presently in poverty, over a million and a half are already in families in work. Of the remainder, perhaps 700,000 to 1 million are likely to stay out of work at any one time, regardless of public policy.

If only a minority of low-income families can thus benefit by crossing the threshold into work, what is happening to the incomes of those who remain in their present employment situation – either in or out of work? Government transfers play a big role in this. Gordon Brown made much of the pledge, in the last Budget, to extent the indexing of the child element of the child tax credit to earnings at least until 2010. Yet, on its own, this link does not enable more families to escape poverty. In fact, under present policies, the total amount of state transfers received by low-income families with children is set to fall rather than rise relative to incomes generally. This is because child benefit and the 'family' element of child tax credit are being uprated more slowly than average earnings, while for families who do not work, income support is rising only with prices.

Ad hoc boosts to tax credits or child benefit, such as those produced in some Budgets of recent years, could change this, but on announced policies the prospects look grim. The small reductions in child poverty caused by carrying forward welfare to work measures would be offset by these relative income falls, so the modellers project little further reduction in the child poverty rate under existing policy.

The Institute for Fiscal Studies, which ran these models, looked at what changes in tax credits and benefits would be enough to meet the targets. To halve child poverty by 2010 would cost at least about £4 billion. This is a tiny proportion of national income, requiring us to devote an extra 3p out of every £10 we earn to redistribution, and represents less than 1 per cent of public spending.

Supposing we were willing to spend it, what would be the best way to allocate such extra resources? Certainly not by putting it all into child benefit: three times as much would be needed to achieve the required reduction through this untargeted benefit as through child tax credit, targeted on income. But nor is it necessary to go all the way to the other extreme, of putting it all the increase into child tax credit. This has the disadvantage of bringing ever more families into means-testing. One compromise is to combine rises in child tax credit with some spending targeted not by income but by family size. For example, child benefit could be raised much faster than at present for families with three or more children. Since a large proportion

of these families are on low incomes, this is a reasonably efficient means of reducing poverty without a means test.

Looking further ahead to 2020, the cost of redistribution is much greater. To get almost all children out of poverty (literally a zero rate is not considered possible, due to there always being some families with temporarily low incomes), the Government would both have to close the present gap between benefit levels and the poverty line and uprate benefits by much more than planned at present, to reverse the decline in relative incomes caused by raising them only with prices. Between 2010 and 2020, it is estimated that annual spending would have to be raised by £28 billion compared with following present policies. Even if taxpayers coughed up this amount, on its own such redistribution would introduce all sorts of distortions. It would bring huge numbers of working families into the tax credit system, and create a yawning gulf between the incomes of out-of-work families with and without children. If the Government continued to peg out-of-work benefits for non-parents only to prices, a single woman would be getting about £200 in today's prices if she had a child, compared with just over £50 on jobseeker's allowance if she did not.

The way forward: extending the ambitions of policy

Part of the solution must be to create policies that do not rely only on state redistribution as a solution to child poverty. Improving opportunities for families to use market earnings towards escaping poverty is not the alternative to improving tax credits and benefits, but its complement. If relatively fewer families with children are without jobs or on lower earnings, adequate support for those families becomes more affordable.

Much emphasis so far has been on improving opportunities for lone parents to work. While that task is not complete – as already noted, lack of satisfactory childcare remains a significant barrier – there needs to be a wider agenda. For example, many children of couples in poverty have only one earner in their family, and could be helped greatly if a second adult went out to work, even part time.

The Work and Pensions Secretary, John Hutton, has acknowledged that support for second earners needs to become an important part of welfare to work assistance. It will be important to develop this policy agenda in the spirit of choice and the improvement of family opportunities,

The cost of *not* ending child poverty

The cost of poverty to the children who experience it is great – in terms of direct suffering, humiliation and damage to their life chances. But there are also big costs to society as a whole, and these need to be brought into play when persuading the public that continuing to tolerate some of the highest levels of child poverty in Europe should not be an option.

Social costs start with the moral damage – the shame of a rich society allowing avoidable suffering among its most needy children. More tangible costs, illustrated in the diagram below, range from the cost of social services interventions to address problems among families damaged by poverty, to the cost to the Treasury of the relatively high chance that someone who grew up poor will be unemployed or in a poorly paid job, paying few taxes and requiring large tax credits.

	Individual disadvantage and hardship	Consequences for society and for social spending
Impact of poverty in childhood	Child material and social hardship Knock-on effect on development during childhood	Extra spending on child problems – for example, behavioural, health, remedial education Implications of damage to families – extra services, knock-on problems in schools, spending on protective care, anti-social behaviours
	Outcomes	
Future consquences	Greater chance of material hardship in adulthood, linked to continuing economic disadvantage Knock-on effects on, for example, health, psychological wellbeing, ability to achieve life goals Consequences for own children	Extra spending on long-term consequences of child poverty – for example, poor health, higher crime Reduced economic capacity resulting from failure of individuals to reach potential Further spending on poverty caused by continuing cycle of disadvantage carried across generations

Some of these costs need to be presented sensitively. One can make the point that childhood poverty is associated with a future risk of offending without implying that every child on a low income grows up to be a criminal – and indeed emphasising that most do not. However, while caution is required on this front, an important message for 'Middle England' is that all of our lives are affected by the fallout of poverty and disadvantage. For example, the disaffection of many young people, associated in many cases with a lack of hope or opportunity, creates strong social unease and affects the way we interact with our public services. Would the often futile quest for 'school choice' create such heartache if parents felt less need to care about whom their children go to school with?

But the most powerful argument for facing the cost of ending child poverty, in order to avoid the cost of not ending it, is that the latter is likely to escalate if nothing is done. Recent JRF research shows that the 'inter-generational' transmission of childhood poverty is growing more powerful. Adults who were poor as teenagers in the 1980s are on average twice as disadvantaged, relative to others, than those who were poor as teenagers in the 1970s. When the later cohort entered adulthood, they encountered a more risky and more polarised world, in which the baggage that they carried with them from childhood poverty weighed them down more than in the past. If this goes on, such social polarisation and its fallout can only grow with each generation.